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Manager, Dissemination Branch  
Information Management and Services Division  
Office of Thrift Supervision  
1700 G Street, NW  
Washington D.C. 20552

via facsimile: 202-906-7755

**Attention Docket No. 2000-56**

The Board of Directors of Universal Federal Savings Bank applauds the efforts of the OTS to further develop the mutual holding company (MHC) structure as an effective means of access to capital markets and a compelling alternative to total stock conversion. We also applaud your promulgation of the proposed rule in clear and plain English—this is an exemplary model of regulatory prose that effectively conveys its subject matter without requiring a companion guide to the punctuation and sentence structure of “legalese”.

Maintaining the mutuality of the relationship with member-customers is central to the local community focus of Universal FSB, while the need to supplement capital may well prove to be central its future growth and expansion. Both the interim final rule on stock repurchases and, particularly, the proposed rule on MHC reorganization and structure have encouraged the Universal Board of Directors actively to consider this alternative to self-sustained growth as a mutual savings association. Since we have only recently begun the process of reexamining our strategic plan from this perspective, we are not in a position to offer an extensive commentary on the impact of these interim and proposed rules on our future operations. Nonetheless, we have noted several issues that warrant comment.

**The Interim Final Rule**

The interim final rule has been significant to our planning insofar as it facilitates the extended operation of an MHC. Specifically, the elimination of the dilutive effects of dividend waivers on minority stockholders resolves the concern that this issue would exert its own cumulative and extraneous pressure to convert the MHC fully to stock form. Coupled with the favorable tax implications and the ability to preserve capital at the subsidiary association (or mid-tier) level, this provision assures that only valid business reasons need guide any thoughts of a future second-step conversion.

From this perspective, the stock repurchase provisions of the rule are only of abstract future relevance to our planning. On the other hand, the establishment of parity with the powers granted to financial holding companies under Gramm-Leach-Bliley provides further incentive to consider the potential benefits of the MHC.

## **The Proposed Rule**

The proposed rule on mutual holding company reorganization raises a number of issues that have the potential to make the MHC structure a more compelling model for maintaining the benefits of mutuality for an indefinite period while enjoying a wider range of strategic options. Among these, those with the greatest relevance to our current planning are the following:

- Streamlining the MHC Reorganization Process. The proposed rule appropriately raises the question of whether reorganization into MHC or mid-tier form should require a vote of members. In response, we note that obtaining depositor approval of a plan of MHC reorganization under the current regulations may not only attenuate the reorganization timetable, but also prove to be a relatively costly undertaking. Since members do not have voting rights with respect to the merger of two mutual institutions, there appears to be no reason they should need to vote on a mutual holding company reorganization: their ownership rights are not affected by either type of reorganization. By contrast, members should have the right to approve any second-step conversion to stock form, since this would indeed alter their ownership interests. We encourage the pursuit of the implicit proposal to streamline the reorganization process by removing the requirement of prior member approval.
- Providing Expanded Benefits and Incentives to Retain Management. The proposed rule affords the possibility that, regardless of the minority proportion of public stock issued, a savings association or mid-tier subsidiary of an MHC might offer management stock option and benefit plans as if minority shareholders held 49% of the stock (providing that the MHC retains majority control following implementation of the plans). In addition, the proposal would allow the adoption of stock option and stock benefit plans at the time of the reorganization, so long as grants under the plan are deferred for the first six months of reorganized operation. Finally, the proposal would allow the adoption of additional stock benefit plans without requiring an additional stock issuance, subject to 30 days prior notice to the OTS.

While it is important to balance the interests of management and employees with those of the members who remain as constituents in the mutual holding company structure, we welcome these proposals as valuable mechanisms for retaining and rewarding competent management in a manner equivalent to those commonly offered by fully converted stock institutions.

- Facilitating Acquisitions, Mergers and Affiliations. The proposed rule promises to make mutual holding companies more competitive with stock institutions in terms of their ability to effect mergers and acquisitions. Central to the enhancement of this competitive ability has been the authorization of MHCs to use stock to acquire other financial institutions. The proposal raises the possibility of using other forms of currency, such as trust preferred securities and mutual stock certificates, to issue stock for acquisitions.

While we neither offer nor endorse any specific creative financing proposal, we do strongly support the willingness of the OTS to consider a variety of mechanisms for strengthening the acquisition and merger capabilities of MHCs. We also enthusiastically support the willingness of the OTS to explore other forms of affiliation among mutual institutions that may work either in conjunction with, or as an alternative to, the MHC structure.

Among many others, these three issues are exciting because they reflect a welcome regulatory initiative to promote and enhance the viability of mutual institutions. By contrast, the application and related procedural requirements of the proposed regulation give us pause because they appear potentially to impose an unreasonably long procedure and to establish arbitrary constraints on the business judgement of an institution electing to issue stock in a savings institution subsidiary following the establishment a mutual holding company.

Specifically, the proposed rule requires that an institution considering a conversion transaction meet with the OTS regional staff to discuss the proposed business plan and to ensure that the Regional Director does not object it to. This process is to be completed before the institution is permitted to submit either an application for conversion or notice to form a mutual holding company. The proposal further requires that the board of directors, or a committee including outside directors, should participate in the meeting with the Regional Office. The OTS would not accept the filing of a business plan until after the pre-filing meeting is held. Following submission, the Regional Office has 30 days to review the business plan.

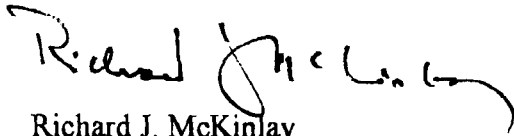
It has been suggested to us that these new requirements may add at least 90 days to the already lengthy conversion process. To the extent that this is the case, we are concerned that the very regulations designed to facilitate the process of forming an MHC may in fact require an unreasonably long process of doing so.

Finally, among other things, the business plan is required to demonstrate that the conversion proceeds will produce a reasonable return on equity, where "reasonable return" is defined as follows: "At a minimum, the projected return on equity should exceed, by a margin reflecting relative investment risk, the institution's rates of long-term certificates of deposit."

It is our concern that, as a well-capitalized, small mutual institution in an inner-city minority market, it may be both unreasonable and arbitrary to establish such a benchmark for the expected return on incremental equity. While we appreciate the need to provide reasonable assurance of the viability of a conversion business plan, we feel that a more flexible approach to this assessment is required to permit management to develop effective strategies to respond to the opportunities and constraints of its local markets.

Notwithstanding these concerns, we strongly support and encourage the further development of the exciting initiatives demonstrated by the proposed rule, and welcome the opportunity it provides to more thoroughly consider the potential advantages of the evolving mutual holding company structure in our strategic planning process.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. McKinlay". The signature is fluid and cursive, with a large, stylized "R" and "M".

Richard J. McKinlay  
Chairman